

Project Green Release 1

Market Requirements Document

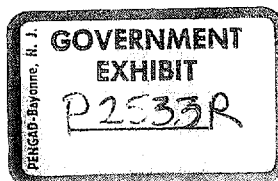
This Market Requirements Document is designed to provide a blueprint for Green Release 1. It leverages market research to identify trends, opportunities and pains, and outlines prioritized requirements for Green R1 to address them. The intended audience for this document is internal Microsoft Business Solutions team members, with the primary audience being the Green development organization.

This document is one of a group of documents that will define the Green release. The complete group of documents includes:

1. Market Opportunity Document - defines opportunity for Green over the long-term
2. Market Requirements Document - defines opportunity and market requirements for Green R1 and is the basis for the Vision document.
3. Product Vision Document - describes how Green will deliver on the requirements in the MRD and introduces application breakthroughs. It also describes the product vision for Green, with details specific to Green R1. (Includes several supporting documents on various initiatives, such as CPE, Accessibility, Trustworthy Computing and Engineering Excellence.)
4. Stakeholder Overview - communicates the vision, strategy and tactical information for Project Green to internal audiences within the MBS business group.
5. Architecture Document - describes the underlying architecture and technology bets for Green R1
6. Positioning Framework - a 1-2 page document used to develop the product positioning and which identifies the target audience, benefits, evidence to support the benefits and value propositions.

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Green MRD Draft 2

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Executive Summary

After more than 20 years and at least 3 generations, business applications are still considered expensive, complex and disruptive to implement, maintain and use. The Return on Investment (ROI) is not laid out clearly or realized to the extent it should be. As a result, the value derived from a business application is continually being questioned or dismissed by both potential and existing customers.

Life with business applications today:

- When shipping a single sales order in one of the most modern ERP applications available today, why does a user still use 30 minutes per shipment, go through 22 steps and use 8 disparate applications?
- Currently customers, after spending > \$100,000 on buying software, spend approximately the same amount to upgrade to a new release and in addition to that, spend 15-18% more on maintenance. All this just to keep their system current and up to date? Customers increasingly show resistance to these costs and cost structures.
- After expending the cash described above, users can't always get what they want out of the system. Despite all the data they can capture, it is too complicated to find answers to even the simplest questions as soon as they go beyond the information delivered via standard reports. Most current systems are designed for data input and processing, not analyzing and presenting. This has been one of the biggest customer pain points for years and three generations of business applications have still not been able to solve it.

Life with Project Green

'Project Green' is a multi-year investment from Microsoft Business Solutions aimed at delivering the next generation business application on the next generation of the Windows operating system codename 'Longhorn'. Project Green is crucial to the strategic goal of Microsoft Business Solutions (MBS) to become the industry leader in the global business application market by 2011. 'Project Green' is about delivering a breakthrough in business applications based on a ground-up redesign of the architecture and application functionality. In order to achieve the overall goal of Project Green, the following strategic objectives are set out. **Project Green should:**

1. Introduce high volume into the packaged business application market, which currently is a highly fragmented, relatively low volume market
2. Grow the packaged business application market potential by increasing the penetration and adoption of business applications in the SMB space
3. Secure the Microsoft technology platform true integrated innovation
4. And introduce a new category (new generation) of business applications

(Read more in the Objectives section...)

This MRD outlines the market requirements for Green Release 1. The content of this document is based on input from several internal and external sources including analyst research, internal desk research and external qualitative research. It also takes into consideration the more than 20 years of knowledge held within Microsoft Business Solutions.

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Green R1 Objectives

Green Release 1(R1) will be the first of three major releases to achieve the overall strategic objectives for Project Green. Specific objectives for this first release are:

1. Target new customers for Microsoft Business Solutions (MBS). There will be no specific effort yet to convert existing MBS customers to Green
2. Make Green the natural choice on the new Longhorn Client Operating System
3. Offer the Lowest TCO in its class
4. Deliver a foundation for business application ISV's to build their unique offering on top of (embed).

(Read more in the Objectives section...)

Target Audience

This section introduces the view of the world applied in this MRD; the customer segments and opportunities, but most important - it defines the target customer for Green R1.

The first major release delivered from 'Project Green' will be targeted at delivering end to end business applications for companies between 10 to 500 employees (Core Small Business (CSB) up to Core Mid Market (CMM), in Microsoft standard taxonomy).

When choosing our geographical expansion strategy for Project Green and Green R1 specifically, we will prioritize geographies based on the market potential based on the number of entities (in connection to introducing high volume goal of Green), IT readiness of a geography, the local Microsoft Execution power, current competitive environment and economic factors depicting the economic status of a geography.

Within the target audience for Green R1 (CSB to CMM in top 10 target countries), the Manufacturing, Wholesales and Business Service industries hold the greatest potential.

(Read more in the Target Audience section...)

Market Trends

Leading industry analysts¹ have identified several market trends and technological developments that will effect the development of the ERP software market over the next 2-5 years. This section focuses on those trends and developments that we believe will have the greatest impact on customers in the SMB market and which, if addressed in our development of Green, will present the greatest opportunities for transformational breakthroughs. The requirements² to meet each of the market trends are also described in this section.

(Read more in the Market Trends section...)

Customer Buying Behavior

Today's potential business application customers are mostly driven by Price/TCO, improved productivity and improved customer service when making the purchasing decision. Future purchase drivers will set requirements more related to the "now" economy and customers will look more and more to systems to improve their response to fluctuating customer demands.

This section looks into the current and future purchase motivators of business applications (for SMB customers), the purchase behavior of SMB customers and the resulting requirements for Green R1.

¹ Following analyst where used for this section: Gartner, IDC, AMR

² All requirements identified throughout the MRD have been gathered in an Excel overview - [Green R1 MRD Requirement Overview](#) - so that they exist in a single list, without duplication. Their placement in the MRD is referred to in the Excel found on the external Product Management Green site.

Target Segments and Markets

"Knowing your destination is half the journey" - Anonymous

This section introduces the view of the world applied in this MRD; the customer segments and opportunities, but most important - it defines the target customer for Green R1.

Audience taxonomy⁵

As per the Market Opportunity Document for Microsoft Business Solutions⁶, the following taxonomies of companies are applied when describing the target segments and markets for Green R1. The primary characteristic used for identifying a company is the number of employees.

	Small Business	Mid-Market	Enterprise
	Lower Small Business (LSB)		Upper Mid Market (UMM) Corporate Accounts Space (CAS) Global Major & Strategic Accounts
Characteristics	< 5 PCs <10 employees		~250-500 PCs 500-1000 employees >1000 employees >5000 employees
# WW entities ⁷	27 M		44K ?? ??
Average IT Spend	\$300		\$300K-\$2M \$2M - \$45M >\$45M

Green R1 will target the following customer segments:

- Core Small Business (CSB)
- Low Mid Market (LMM)
- Core Mid Market (CMM)

The version of Green following R1 will expand the target market, and over time Green should fit the entire market up to the Corporate Account Space (CAS), except for the lower small businesses, which will be serviced by the REDACTED⁸ initiative.

Macro classification of customers (existing and potential) that remains consistent over time, applies across all business groups and subsidiaries, and is quantifiable in size. The audiences in total are exhaustive, meaning they cover the entire market. They are also exclusive, meaning there is no overlap between audiences (a customer or user cannot be in two audiences simultaneously).

Source: MBS Market Opportunity Document, September 2003

REDACTED

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⁵ Audience: a classification of customers (existing and potential) that remains consistent over time, applies across all business groups or sub-markets, and is quantifiable in size. The audiences in total are exhaustive, meaning they cover the entire market. Audiences may overlap, meaning there can be overlap between audiences (a customer or user cannot be in two audiences in the same context).

⁶ Microsoft Business Solutions, 2003

Top 5 competitors for Green R1

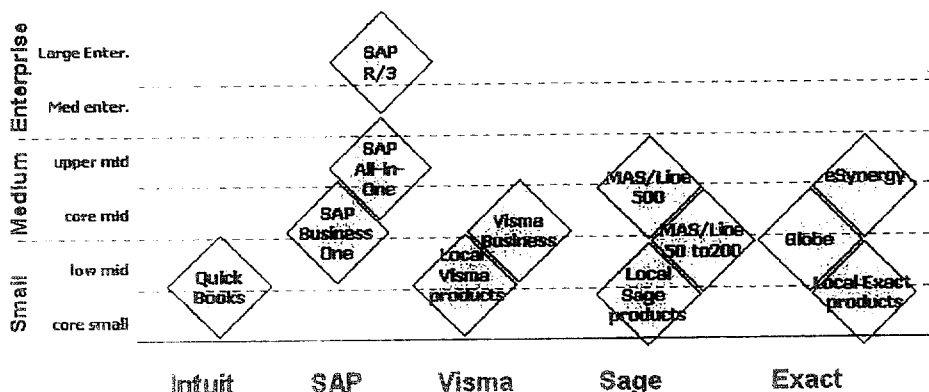
Given its positioning in the core small business and lower mid-markets, Green R1 will come across both local/regional and global competitors. In order to determine the top five competitors in this space, the Gartner 2002 ERP license market share data (released July 3, 2003) was used in conjunction with the financial statements of the leading vendors. Note that revenues from off-the-shelf lower small business segment products (for example Intuit Quicken) were not considered as SMB revenues.

Mergers and acquisitions will also create new competitors. An example is Epicor's recent acquisition of Scala. The result is a very Microsoft centric ISV with 20,000 customers, 400 partners, and a 2004 target of \$250M in revenue, which comes from the SMB space. Their combined revenue will make move them into the #3 competitor position.⁵¹

Looking to the vendors competing in the market today, the top five competitors to Green R1 will be:⁵² (minus Scala/Epicor).

Competitor	ERP License Revenue (2002)	% from SMB segment	Total SMB revenue (2002)
Intuit	\$1,071 million	50%	\$536 million
Sage	\$270 million	80%	\$216 million
SAP	\$1,235 million	6%	\$73 million
Visma	\$64 million	80%	\$50 million
Exact	\$51 million	95%	\$49 million

A brief positioning overview of these companies and their product portfolio is given in the figure below:



⁵¹ They do not target the Enterprise space, but have a very small clientele in the CAS space. For the last 12 months, Epicor posted revenues of \$148.1M, while Scala recorded \$69.5M in revenue. The remainder of the \$250M is expected to come from Epicor's recent acquisition of ROI systems.

⁵² Gartner, Company Reports

